MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

ALLIANCE FOR FINANCIAL INCLUSION

GLOBAL POLICY FORUM

“MAKING FINANCIAL INCLUSION REAL”

OPENING ADDRESS

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Steering Committee

Honourable Governors and Deputy Governors, Ministers and Deputy Ministers of Finance

Distinguished guests

Ladies and gentleman

Welcome to Cape Town and the Southern tip of Africa. On behalf of the government of South Africa, it is indeed a privilege to welcome you to South Africa and to the fourth Global Policy Forum of the Alliance for Financial Inclusion (AFI). We are honoured to co-host this event, together with the South African Reserve Bank and the Alliance for Financial Inclusion.

This year's forum has two important objectives: to take important and tangible steps towards "making financial inclusion REAL" and to lay the basis for the independence of the Alliance. In September 2011, on the occasion of the Third AFI Global Policy Forum, we pronounced in the Maya Declaration that we: *"Recognize* the critical importance of financial inclusion to empowering and transforming the lives of all our people, especially the poor, its role in improving national and global financial stability and integrity and its essential contribution to strong and inclusive growth in developing and emerging market countries…"

The Forum's deliberations this will help to give concrete content to this objective and challenge us to give added impetus to our efforts in ensuring that the poor around the globe have access to appropriate and affordable financial services, and more importantly that they are included in the economic activity of our respective countries. Equally important, this increased access must also make a difference to their lives and lead to broader economic and social inclusion.

The inequality, the social and political distrust of elites, and the neglect of the poor – and the impoverishment of millions as a result of the financial crisis that we still have not recovered from – pose serious challenges to economic progress, and political and social stability. The phenomenal work of movements such as the Alliance for Financial Inclusion, the commitment of state institutions such as the Central Banks and Finance Ministries, and the NGOs to add their institutional and policy strength to the ingenuity and sheer grit of the poor to manage their risks, and collectively marshal their resources, is indeed commendable!

In my view, the Alliance provides an excellent role model for the potential cooperation of government institutions such as central banks and finance departments, financial NGOs, "microfinancial" enterprises, and indeed national and multinational private sector banks. Each of the roleplayers will have shared and individual interests in this endeavor, but the important achievement will be the building of synergies among key social institutions. This model also brings together the "wisdom" of the daily experiences and innovations of the poor, the experience and resources of national institutions and the shared interests and learnings of a global alliance.

Encouragingly, the work of the AFI and like-minded bodies has also found expression in the work of the G20. As part of our participation in the G20 financial inclusion initiatives, South Africa is a participant to the financial inclusion Peer Learning Program under the leadership of Mexico, the current chair of the G20.

Through its pursuit of greater cooperation and commitment from both the G20 and non-G20 countries to take actions that enable the move towards a more inclusive financial system, Mexico proposed the Financial Inclusion Peer Learning program, an initiative in which participating G20 and non-G20 countries are encouraged to commit to:

- Putting financial inclusion at the highest level in their national agendas and to support the design of effective policies, through the creation of high-level co-ordination platforms; and
- Developing a national financial inclusion strategy.

In line with these objectives, I would like to encourage countries that are represented here today to heed the call of the G20 leaders to use the Maya declaration to make a firm commitment to concrete actions to promote financial inclusion in their respective countries.

Recognizing that the long-term stability and sustainability of our financial systems are dependent of our ability to serve and enable our societies to participate in the broadest sense in economic activity, we should continue to foster financial inclusion. As we pursue optimal economic development in our respective countries, we must ensure that we create an economic environment in which all citizens participate in, and derive benefit from, participation in economic activity. And in this journey towards a better life for all, financial inclusion is a necessary part of our toolkit.

In recent years financial inclusion has gained recognition as one of the main pillars of the global development agenda. In South Africa, financial inclusion plays a vital role in the on-going transformation and development of our society, and our desire to improve the lives of our people. In our efforts to boost economic growth, improve economic opportunities and promoting equality of opportunity, financial inclusion is of vital importance. The ability to use a transactional account to purchase goods and services, a savings account to preserve wealth, credit to increase productive capacity or improve the quality of life, and to use insurance services as a bulwark against unforeseen events and risks, can go a long way in facilitating a better life for the poor.

Of course, financial inclusion has its skeptics. The questions that the sceptics would ask are:

- Can financial inclusion have a significant impact on the lives of the poor?
- Does it lift people out of poverty?
- Will big firms engage at this level?
- Are the institutions doomed to be "micro" in size, and impact?; and
- Will microfinancial products and assistance create a conveyor belt for transporting the poor to a higher level of prosperity?

But this is not the time for skepticism – it is a time for action! It is not a time for endless and sometimes pointless policy debates. It is a time for practice, a time lessons from this practice to guide future actions.

At the same time, we need to be mindful of the fact that financial inclusion alone cannot change the lives of the poor. Many other development programmes aimed at eradicating poverty in a holistic way, including education, health, and potable water, can, and do, make a positive change to the lives of the poor.

Financial inclusion is part of a compendium of complementary development programmes which can have positive effects. And the question that must guide in our work as policy makers, practitioners and advisors is how we go about ensuring the creation of real change.

The theme for this year's conference is "making financial inclusion real". The theme was selected, not because previous efforts and discussions were not aimed at making a real change, but to highlight the importance of making a difference in the lives of ordinary people. This theme will help us to look at our efforts and ask ourselves:

- Have our efforts brought change to the lives of billions of people around the globe?; and
- Have our commitments translated into real positive experience for the poor?

And answers to these and other questions will define our success as policymakers. If we fail to answer these questions then we have clearly failed our people.

In South Africa the experience of the Financial Sector Charter demonstrates the power of partnership among constituencies in addressing economic exclusion, but it also shows the power of disagreement. The Financial Sector Charter has proved that the provision of sustainable, appropriate and affordable financial services to the poor, while contributing to the optimal social and economic development of the country was a sound approach.

The Charter was negotiated by the financial services sector, government, organised labour, and community representatives. It resulted in agreed targets on a broad range of issues, at the centre of which was financial inclusion. The first Charter was negotiated in 2004 and focused, amongst other things, on access to, and affordability of, financial services. It resulted in initiatives by all sectors of the financial services industry, with the low-cost "Mzansi" basic bank account, taken up by more than 3 million people previously unbanked in South Africa.

The targets relating to physical access to banking services, with the objective of providing points of transaction within walking distance to the vast majority of South Africans, were reached within a few years due to the expansion of the physical footprints of financial service providers, as well as the inter-operability afforded by the National Payment System. It is because of the partnership between stakeholders that South Africa has moved from 47% of adults having a bank account in 2005 to 63% in 2011.

As we continue to foster financial inclusion, consumer protection and financial education are fundamental to our efforts. An environment of poor financial literacy, coupled with a lack of adequate consumer protection, is likely to encourage consumer abuse and inappropriate use of financial services. Users of financial services can easily be victims of unfair treatment by service providers, which is sometimes caused by opaque disclosure or nondisclosure of costs or conditions. As policymakers we must ensure that when taking up financial services consumers understand their rights and responsibilities. We must ensure that we educate consumers about the value and benefits of savings, insurance and responsible credit. A financial services sector that provides affordable and appropriate products and services - and does so in an enabling and fair way to all - is a national asset. But a sector that is dominated by greed and opaque practices is, as we have all learnt, a national threat.

The South African National Treasury has outlined South Africa's broader financial sector reform in a policy document, "A Safer Financial Sector to Serve South Africa Better". The policy objectives of this reform include maintaining financial stability, strengthening consumer protection, combating financial crime, and ensuring that financial services are appropriate, accessible and affordable.

One of the main initiatives in the implementation of the policy is the movement to a "Twin Peak" regulatory framework, under which prudential regulation and consumer protection will each have a regulatory focus, while National Treasury will remain responsible for policy implementation, including ensuring greater access to financial services by all South Africans. This approach emphasizes that all components are important and that an integrated framework is necessary to do justice to seemingly contradictory demands. We hope to have the Twin Peaks model fully implemented over the next 12-18 months.

We have a huge task ahead of us. Promoting access to financial services by billions of people across the globe is not an easy task. The circumstances demand that each of us do more, act with greater determination, and to learn from each other. There is no simple solution to addressing financial exclusion. It requires multiple stakeholders to work together to ensure that financial inclusion does increase economic opportunities for the poor and low income earners. Such efforts require the co-operation of governments, financial institutions, civil society, and development partners.

There are high expectations of our capacity as policymakers to bring about changes in people's lives. And for us to live up to these expectations and enhance our capacity to make financial inclusion a reality, it is important that we commit to learning from each other and sharing financial inclusion experiences.

I would like to take this opportunity to thank and congratulate AFI for the remarkable work they have done over the past four years, bringing together policymakers from more than 80 developing countries and creating an environment in which they can learn from each other. It is efforts like these that ensure that learning translates into actions that will ultimately ensure a better life for all.

We are operating in a context where the after-effects of the 2007 global financial turmoil still remain with us. In this regard, amongst the challenges we face are whether:

- the regulatory reform and efforts to create stability in the financial sector are adequate;
- they meet the demands of the day and the legacy that this crisis left us with; and
- the many strategies that we are developing might not be obstructed by shocks to the financial system.

In this context, the recent report by the IMF on Global Financial Stability is a concern. It says: "The data suggest that financial systems are still overly complex, banking assets are concentrated, with strong domestic interbank linkages, and the too-important-to-fail issues are unresolved. Innovative products are already being developed to circumvent some new regulations. These same traits have been linked to the crisis, suggesting that financial systems remain vulnerable. The good news is that there do not appear to have been serious setbacks to financial globalization (despite reversals from crisis-hit economies); however, this also means that in the absence of appropriate policies, highly integrated economies are still susceptible to cross-border spillovers."

So, amongst the challenges that AFI faces as we go forward to the next conference is how we thrive in this kind of environment, and how do we ensure that the poor are not affected by any shocks that the IMF seems to suggest that the financial system could still have imposed upon.

The second challenge is the link between the financial sector and the real economy. One of the lessons of the past is the disconnect between the financial sector and the real economy. And today there are many policymakers, particularly in Central Banks, who are confronted with how to encourage banks to lend to the real economy so as to generate growth and jobs. I hope that in your deliberations you will come up with solutions to how we can overcome this problem.

The third challenge is the role of multinational banks in developing countries. Are they as committed to financial inclusion as local banks? Are they able to adapt their products adequately to the requirements of countries they are entering, particularly in the African continent where there are new markets and new opportunities.

The fourth challenge that we need to look at is the dominance, on the one hand, of the few large financial institutions and, on the other hand, competition with the financial sector. Competition is crucial in bringing about innovation in products and affordability of those products. Are we getting right the balance between the dominance of a few banks and competition amongst them?

Let me conclude by leaving you with words from a book, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, by Abhijit Banerjee and Esther Duflo, words which reinforce the spirit in which AFI operates: *"Access to microfinance is important because it gives the poor a way to map out the future in a way that was not possible for them before, and this is the first step towards a better life. Whether they are buying machines, utensils, or a television for their home, the important difference is that they are working towards a vision of a life that they want, by saving and scrounging and working extra hard when needed, rather than simply drifting along."*

Our collective mission as AFI is to make this vision of the poor a reality and to ensure that financial inclusion leads to economic inclusion, and that economic inclusion leads to prosperity for all.

I wish you well during your stay in Cape Town. I hope you have come with additional euros and dollars to boost our economy.

Thank you